

# Minnesota Department of Finance

October 2004

## State Revenues Continue Close to Forecast

Net non-dedicated general fund revenues totaled \$3.008 billion during the first quarter of fiscal 2005, \$43 million (1.5 percent) more than end-of-session estimates. Modest negative variances in the individual income tax, sales tax, and motor vehicle sales tax were offset by stronger than expected corporate tax receipts. Receipts from the insurance gross premiums tax and mortgage and deed taxes were also significantly above forecast. (See page 4) Total receipts were 2.1 percent greater than in the first quarter of fiscal 2004.

### Summary of Tax Receipts (July – September, 2004)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>%</u>
	----- (\$ in millions) -----			
Individual	\$1,460	\$1,448	\$(12)	(0.8)
Sales	905	900	(5)	(0.6)
Corporate	189	217	28	14.8
Motor Vehicle	75	71	(4)	(5.3)
Other	336	372	36	10.7
<b>Total</b>	<b>\$2,965</b>	<b>\$3,008</b>	<b>\$43</b>	<b>1.5</b>

Corporate tax payments finally appear to be reflecting the strong corporate profit growth observed during the past 12 months. Estimated payments were \$13 million above forecast this quarter, \$40 million (26 percent) more than in the first quarter of fiscal 2004. Other corporate payments, typically payments accompanying tax returns, were \$13 million above forecast. Insurance gross premiums tax receipts were up 35 percent from last year's level. Individual withholding tax receipts and gross sales tax receipts were both slightly below forecast.

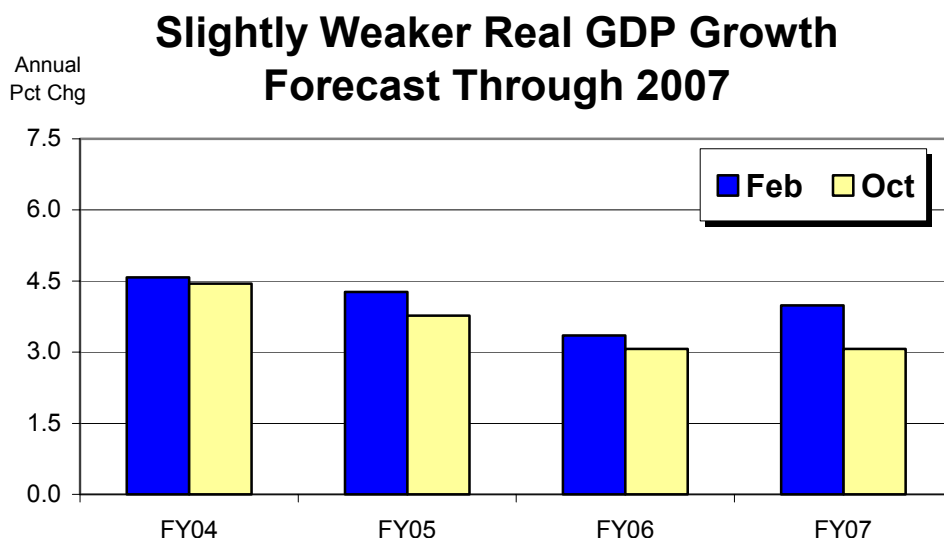
Net non-dedicated general fund revenues for fiscal year 2004 are now reported to be \$167 million above forecast, \$27 million less than reported in July's *Economic Update*. The forecast for residual revenues was increased by \$25 million and projected dedicated revenues reduced by the same amount to reflect a correction to the prior treatment of revenues from court fines. This technical forecast adjustment reduces net non-dedicated revenues, but has no impact on the final general fund revenue variance since it will be offset by a \$25 million positive variance for dedicated revenues when reported in the November forecast.

## Economic Outlook for 2005 Depends on More than Oil Prices

Oil prices have become the economic statistic *du jour*. They directly affect us and we are reminded of them each time we fill up at our local service station. And, they are important. By reducing income available for spending on other consumption goods, oil price increases can slow economic growth. But, they are not the only factor affecting the economy and their impact on consumption can easily be offset by increased income from strong employment growth.

Most forecasters expect oil prices to be \$10 to \$15 lower than the current \$50+ per barrel level by late 2005. But, few believe the current expansion would be threatened were oil prices to stay at their current level. Global Insight Inc. (GII), Minnesota's macroeconomic consultant, expects oil to be about \$40 per barrel in 2005. They note, however, that real GDP growth in 2005 would be reduced by only 0.3 percent should prices remain at current levels. Even \$60 per barrel oil through all of 2005 and 2006 would not be sufficient to bring on a recession. Energy costs are not as large a proportion of consumer spending as they were in the 1980's, and U.S. output is less dependent on fossil fuels than two decades ago.

Global Insight's October baseline forecast now calls for real GDP growth of 3.8 percent in fiscal 2005, down slightly from February's forecast of 4.3 percent. GII now expects real growth rates of 3.1 percent in both 2006 and 2007. In February growth rates of 3.4 percent and 4.0 percent were projected.

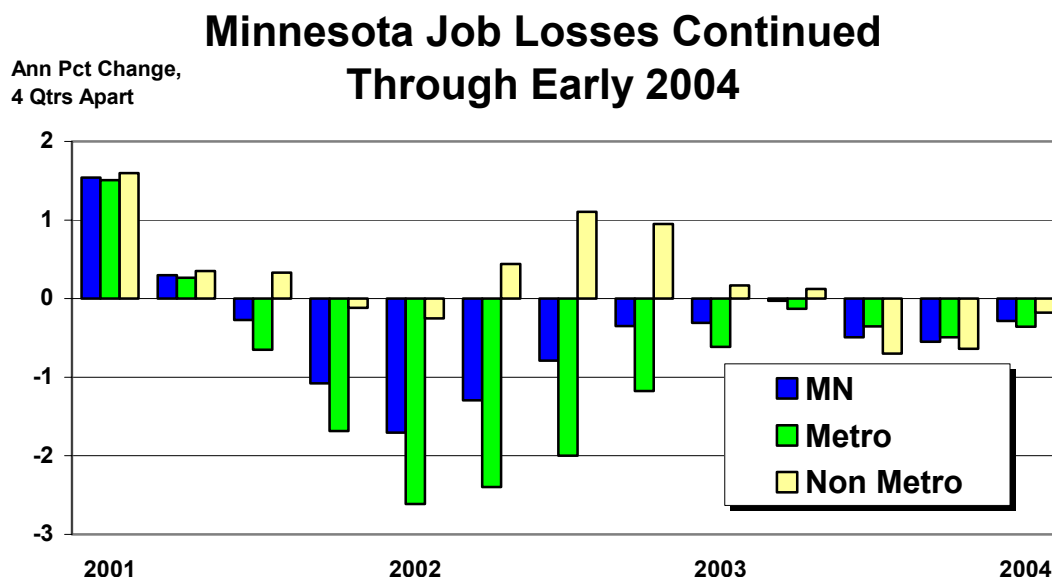


Inflation is now expected to be higher than previously forecast, 2.5 percent compared to February's estimate of 1.6 percent. There are no material changes in the inflation outlook for 2006 and 2007. Lower oil prices offset inflationary pressures in other sectors. The GII baseline forecast was assigned a probability of 60 per cent. A scenario with slightly weaker near term growth, but no recession, is given a 20 percent probability as is one with modestly stronger growth.

### Minnesota's Employment Losses Have Been Concentrated in the Twin Cities Metro Area.

Minnesota lost just over 59,000 jobs between the first quarter of 2001 and the first quarter of 2004 according to the Quarterly Census of Employment and Wages report from the state's Department of Employment and Economic Development. This data, compiled from wage and employment statistics required of all firms whose employees are covered under the unemployment insurance program, is generally considered to provide the most complete and accurate picture of employment activity in state and substate regions. Statewide there were nearly 44,000 fewer jobs in the first quarter of 2002 than there were in the first quarter of 2001. An additional 15,000 jobs disappeared between the first quarter of 2002 and the first quarter of 2004. First quarter 2004 data is the most recent available.

The vast majority of Minnesota's job decline occurred in the seven county Twin Cities metropolitan area. There employment levels fell by 3.6 percent between the first quarter of 2001 and the first quarter of 2004. Employment outside the Twin Cities fell 0.3 percent during that time. During the last three quarters of 2002 and the first half of 2003 employment in greater Minnesota grew while it was declining in the twin cities. Since mid 2003 though, total employment has been below year earlier levels in both the metro and non-metro area of the state.



Declining manufacturing employment accounted for most of the job decline. There were 52,503 fewer manufacturing jobs in Minnesota in the first quarter of 2004 than there were in the first quarter of 2001. Just over 60 percent of that decline occurred in the twin cities, while 55 percent of the state's manufacturing employment is located in the seven county metro region.

# Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	2004 Fiscal Year			July - September 2004		
	Forecast Revenues	Actual Revenues	Variance Act-Fcst	Forecast Revenues	Actual Revenues	Variance Act-Fcst
<b>Individual Income Tax</b>						
Withholding	5,037,800	5,028,980	-8,820	1,219,300	1,204,453	-14,847
Declarations	991,300	1,031,729	40,429	216,165	228,713	12,548
Miscellaneous	603,200	635,338	32,138	48,406	48,781	376
Gross	6,632,301	6,696,047	63,747	1,483,871	1,481,947	-1,923
Refund	1,105,400	986,463	-118,937	23,814	33,986	10,172
Net	5,526,900	5,709,585	182,684	1,460,057	1,447,961	-12,096
<b>Corporate &amp; Bank Excise</b>						
Declarations	660,030	603,646	-56,384	179,900	193,547	13,647
Miscellaneous	127,870	140,815	12,945	21,600	34,505	12,905
Gross	787,900	744,461	-43,439	201,500	228,052	26,552
Refund	142,300	116,413	-25,886	13,000	10,835	-2,165
Net	645,600	628,048	-17,553	188,500	217,216	28,716
<b>Sales Tax</b>						
Gross	4,294,600	4,301,582	6,982	956,420	942,399	-14,021
Refunds	212,049	200,718	-11,331	51,438	42,857	-8,580
Net	4,082,551	4,100,865	18,313	904,982	899,542	-5,441
<b>Motor Vehicle Sales</b>						
	281,246	274,674	-6,572	75,064	70,780	-4,284
<b>Other Revenues:</b>						
Inherit/Gift/Estate	86,000	90,058	4,058	18,500	20,891	2,391
Liquor/Wine/Beer	69,368	69,918	550	13,516	14,431	914
Cigarette/Tobacco/Cont Sub	162,799	161,099	-1,700	35,789	34,612	-1,177
Deed and Mortgage	330,500	351,630	21,131	46,684	57,712	11,028
Insurance Gross Earnings	248,100	258,683	10,583	57,100	73,829	16,729
Lawful Gambling	60,037	59,760	-277	9,980	10,988	1,007
Health Care Surcharge	249,482	249,201	-281	56,516	58,200	1,684
Other Taxes	2,855	2,516	-339	415	230	-184
state wide property tax	603,579	599,622	-3,957	192	245	53
DHS RTC Collections	42,666	44,143	1,477	13,343	11,049	-2,294
Income Tax Reciprocity	46,242	46,242	0	0	0	0
Investment Income	17,300	15,125	-2,175	1,667	3,413	1,746
Tobacco Settlement	168,467	168,467	0	0	100	100
Departmental Earnings	257,900	242,981	-14,919	51,031	48,644	-2,388
Lottery Revenues	36,176	46,983	10,807	6,029	5,804	-225
Revenues yet to be allocated	0	3	3	0	1,589	1,589
Residual revenues	246,489	218,755	-27,734	30,544	35,891	5,347
Sales Tax Rebates (all years)	-6	0	6	0	2	2
Other Subtotal	2,627,954	2,625,187	-2,767	341,307	377,631	36,325
Other Refunds	35,926	42,943	7,017	5,260	5,355	95
Other Net	2,592,028	2,582,244	-9,784	336,047	372,276	36,230
<b>Total Gross</b>	<b>14,624,002</b>	<b>14,641,952</b>	<b>17,950</b>	<b>3,058,161</b>	<b>3,100,810</b>	<b>42,648</b>
<b>Total Refunds</b>	<b>1,495,675</b>	<b>1,346,537</b>	<b>-149,138</b>	<b>93,512</b>	<b>93,034</b>	<b>-478</b>
<b>Total Net</b>	<b>13,128,327</b>	<b>13,295,415</b>	<b>167,089</b>	<b>2,964,650</b>	<b>3,007,776</b>	<b>43,126</b>